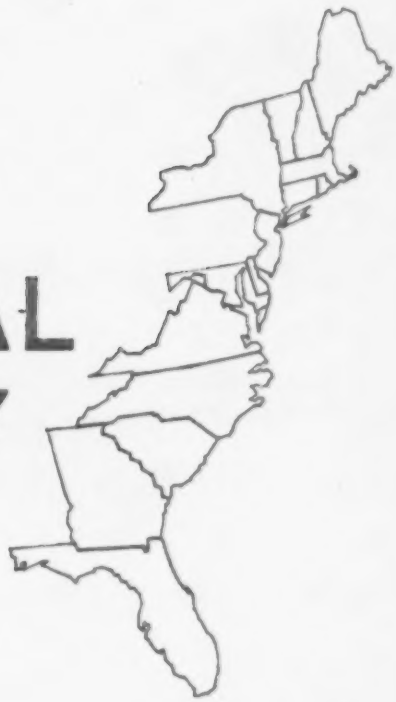
THE BI-COASTAL ECONOMY



REGIONAL PATTERNS OF

ECONOMIC GROWTH

DURING THE REAGAN ADMINISTRATION

A Staff Study
By The Democratic Staff
Of The
Joint Economic Committee
Congress Of The United States

July 9, 1986

J842-19

During the last five years, the United States has experienced economic growth 30 percent below the post-World War II average. While we are bombarded almost daily with news reports concerning new record levels of farm foreclosures, business failures, and plant closings, many Americans are convinced that the economy has gotten better. This apparent anomaly may, in part, be accounted for by regional disparities in economic growth over the last five years.

Anecdotal evidence has provided indications that the State of California and the East Coast of the United States have done quite well during the last five years, while progress has been very limited in most other parts of the country. This report attempts to examine that thesis, document the extent to which national economic growth has been regionally concentrated, and explore possible explanations for the uneven patterns of economic growth.

Since the beginning of the Reagan Administration, annual economic growth as measured by Gross National Product (GNP) has averaged only 2.3 percent compared with 3.4 percent growth for the rest of the post-World War II period. Since no tabulations of state-by-state GNP are kept, other measures of growth must be employed if regional or state variations are to be examined. The best alternative measure of economic growth appears to be income derived from employment or proprietorship. This is estimated on a monthly basis by the Department of Commerce. It is available

on a state-by-state basis beginning in 1929. It includes income from productive activity but excludes passive income (interest, stock dividends, and transfer payments). This measurement of growth has historically tracked GNP with remarkable consistency. Over a 40-year period, it has remained at about 64 percent of GNP with a maximum up or down variation of no more than four percentage points {see Table I (A) and Table I (B)}.

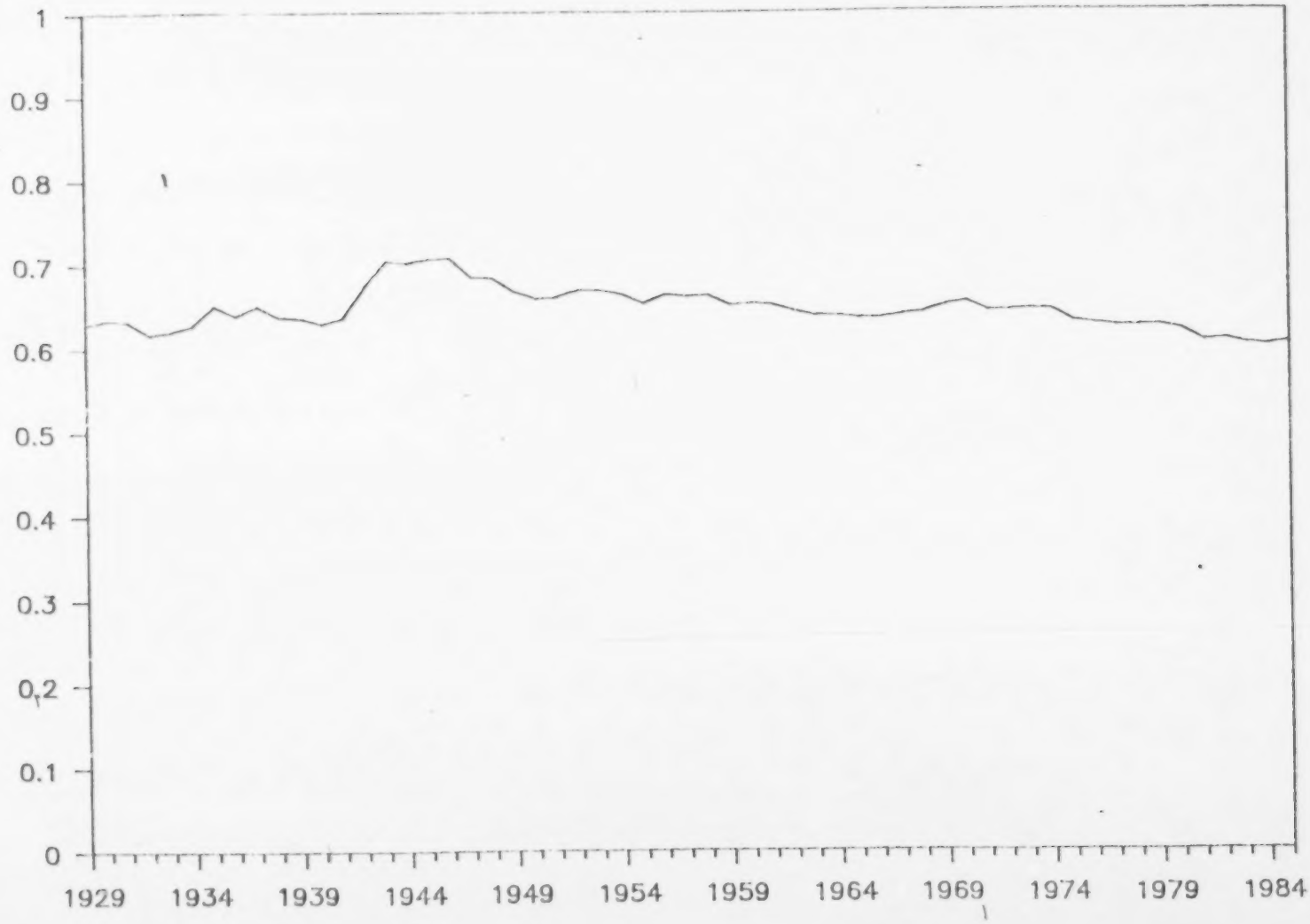
Table 2 shows the total growth by state in both nominal and real dollars between the first quarter of 1981 and the last quarter of 1985 (the last quarter for which these data are available). The table indicates a heavy concentration of growth by region. Of the top 16 growth states, only Arizona and Alaska fall outside the California-East Coast grouping mentioned above. The two East Coast states that are not contained in the top 16, Rhode Island and South Carolina, fall only slightly outside the top 16 with rankings of 19 and 21, respectively.

Collectively, the 16 coastal state grouping contains 42 percent of the Nation's population. Nonetheless, this grouping accounted for nearly 70 percent of the real growth in wage and proprietorship income. Of the $234 billion real growth in wage and proprietorship income that occurred nationally between the first quarter of 1981 and the end of 1985, less than $73 billion went to the remaining 34 states which account for 58 percent of the Nation's population. On a per capita basis, real growth was one-third as much in the heartland grouping as it was in the 16 coastal states.

A more familiar measure of economic health is annual growth rates. As noted earlier, the average growth rate for real GNP in

TABLE I (A)

RATIO OF PERSONAL INCOME* TO GNP



*income from wages and proprietorships

TABLE I (B)

PERSONAL INCOME* AND GNP

GROWTH RATES

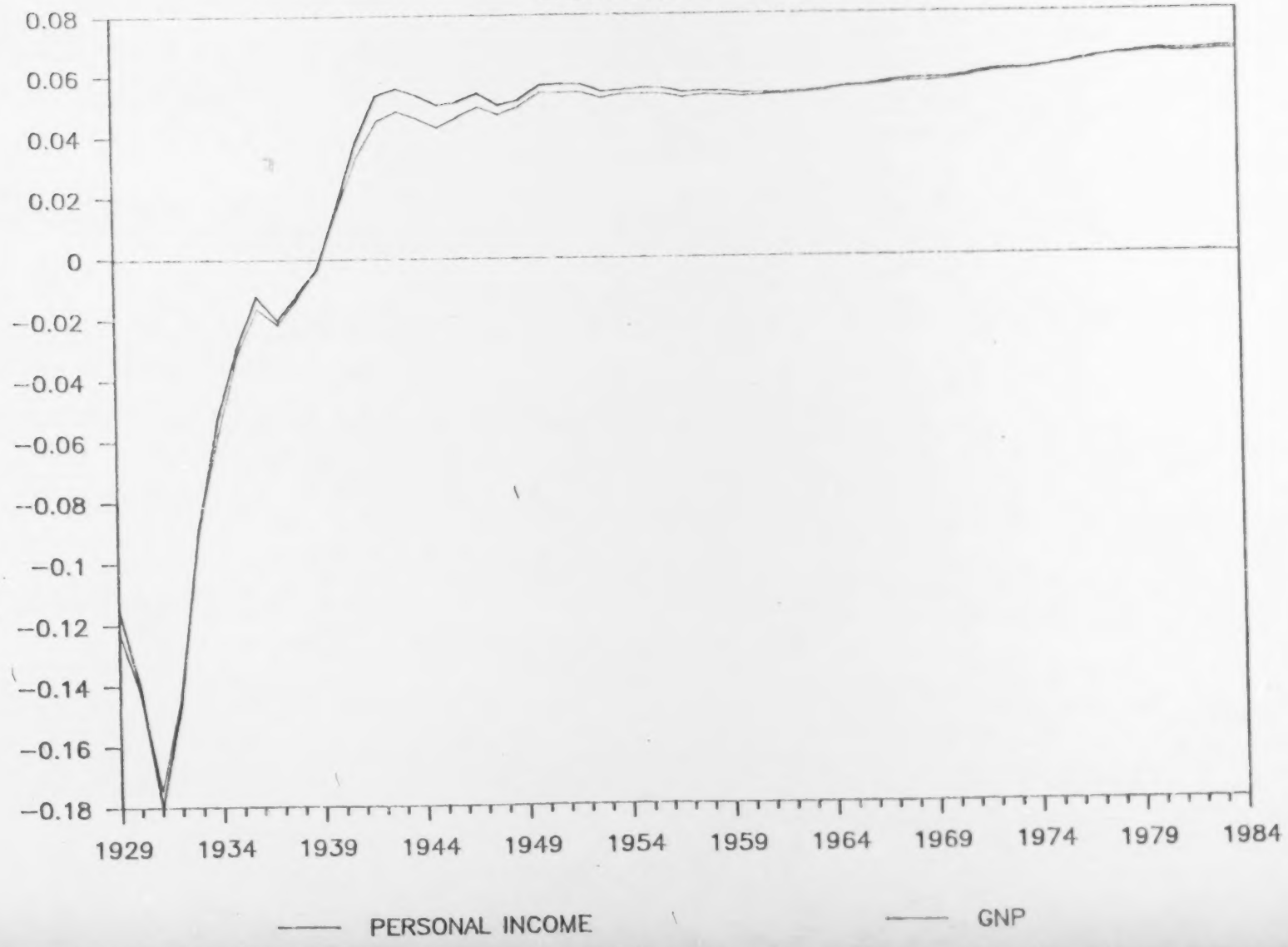


TABLE II

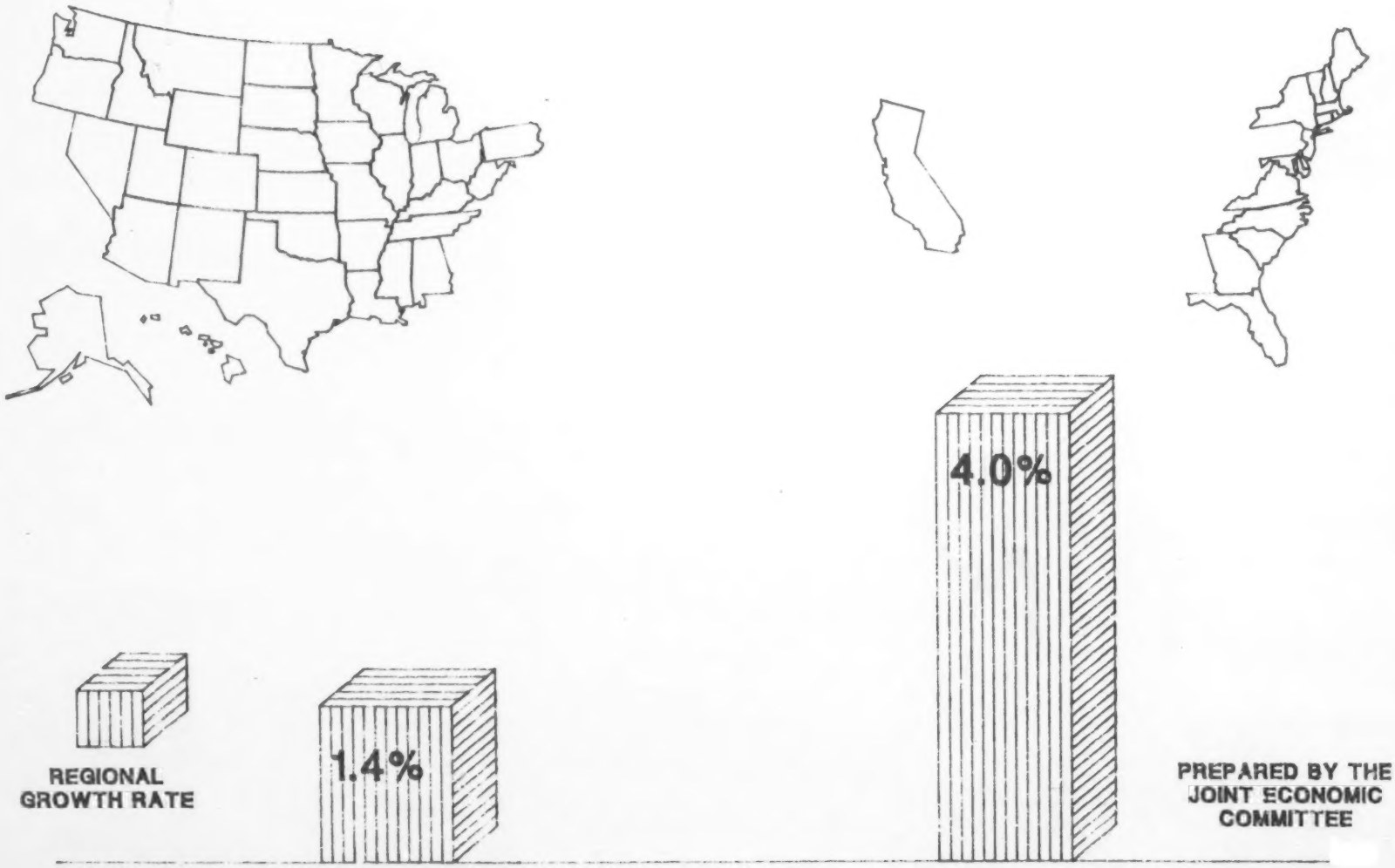
INCOME FROM WAGES AND PROPRIETORSHIPS
BY STATE 1981, 1985

RANK	STATE	BILLIONS OF ACTUAL DOLLARS 1981:1	1985:4	BILLIONS OF REAL DOLLARS (1982) 1981:1	1985:4	GROWTH 81:1-85:4	ANNUAL GROWTH RATE
1	NH	6.1	10.2	6.7	9.0	34.2%	6.4%
2	GA	37.3	58.5	40.7	51.8	27.2%	5.2%
3	FL	62.6	97.9	68.4	86.6	26.6%	5.1%
4	MA	45.3	70.1	49.6	62.0	25.1%	4.8%
5	VA	39.0	59.9	42.6	53.0	24.4%	4.7%
6	AK	5.4	8.4	6.0	7.4	24.4%	4.7%
7	AZ	18.5	28.4	20.2	25.1	24.2%	4.7%
8	NJ	58.1	86.9	63.5	76.9	21.1%	4.1%
9	CT	27.4	40.8	29.9	36.1	20.5%	4.0%
10	VT	3.2	4.7	3.5	4.1	19.3%	3.8%
11	NC	38.2	55.9	41.7	49.5	18.7%	3.7%
12	MD	31.0	45.3	33.8	40.1	18.4%	3.6%
13	NY	141.4	206.5	154.5	182.8	18.3%	3.6%
14	CA	204.4	296.3	223.4	262.2	17.4%	3.4%
15	ME	6.6	9.6	7.2	8.5	16.8%	3.3%
16	DE	5.1	7.3	5.5	6.4	16.2%	3.2%
17	CO	24.7	35.4	27.0	31.4	16.2%	3.2%
18	NE	11.6	16.5	12.7	14.6	15.1%	3.0%
19	RI	6.4	9.1	7.0	8.1	15.0%	3.0%
20	TX	117.3	165.4	128.2	146.3	14.2%	2.8%
21	SC	18.9	26.7	20.7	23.6	14.2%	2.8%
22	MN	32.3	45.3	35.3	40.1	13.4%	2.7%
23	MO	35.3	48.7	38.6	43.1	11.5%	2.3%
24	NM	8.3	11.4	9.0	10.0	11.4%	2.3%
25	UT	9.5	13.1	10.4	11.6	11.2%	2.3%
26	TN	29.2	40.0	31.9	35.4	10.8%	2.2%
27	HI	7.9	10.7	8.6	9.5	9.9%	2.0%
28	KS	18.0	24.3	19.6	21.5	9.5%	1.9%
29	DC	14.2	19.3	15.6	17.0	9.4%	1.9%
30	NV	7.4	10.0	8.1	8.8	9.4%	1.9%
31	AL	23.0	31.0	25.1	27.4	9.2%	1.9%
32	AR	12.5	16.8	13.7	14.9	8.7%	1.8%
33	SD	4.1	5.4	4.5	4.8	6.8%	1.4%
34	ND	4.9	6.5	5.4	5.7	6.5%	1.3%
35	IL	93.4	122.5	102.1	108.4	6.2%	1.3%
36	MS	12.9	16.8	14.1	14.9	5.9%	1.2%
37	WI	34.2	44.1	37.3	39.0	4.6%	1.0%
38	OH	79.8	102.9	87.2	91.0	4.4%	0.9%
39	IN	39.1	50.2	42.8	44.4	3.9%	0.8%
40	MI	69.9	89.2	76.4	79.0	3.4%	0.7%
41	PA	85.6	109.1	93.6	96.5	3.1%	0.7%
42	KY	22.4	28.4	24.5	25.1	2.6%	0.5%
43	OK	22.1	27.9	24.2	24.7	2.1%	0.4%
44	ID	6.1	7.6	6.7	6.7	1.0%	0.2%
45	WA	33.3	41.4	36.4	36.6	0.7%	0.1%
46	OR	19.0	23.2	20.7	20.5	-1.2%	-0.3%
47	IA	21.0	25.2	22.9	22.3	-2.8%	-0.6%
48	LA	30.2	35.9	33.0	31.7	-3.9%	-0.8%
49	MT	4.9	5.7	5.4	5.1	-6.0%	-1.3%
50	WV	11.7	13.3	12.8	11.8	-8.4%	-1.8%
51	WY	4.5	4.8	5.0	4.3	-14.2%	-3.2%

THE BI-COASTAL ECONOMY

GEOGRAPHIC CONCENTRATION OF ECONOMIC GROWTH SINCE 1981

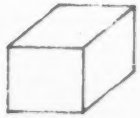
(ANNUAL RATE OF GROWTH FOR THE TWO REGIONS 1981:1 - 1985:4)



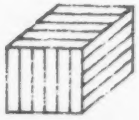
THE BI-COASTAL ECONOMY

GEOGRAPHIC CONCENTRATION OF REAL ECONOMIC GROWTH SINCE 1981

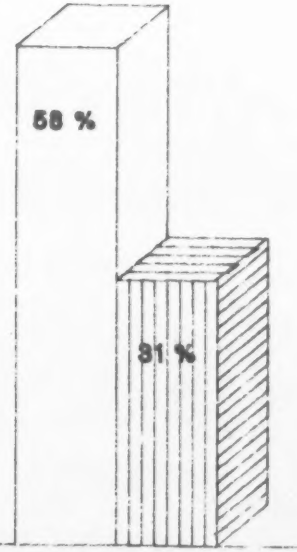
(U.S. REAL GROWTH 1981-1985 = $234 BILLION)

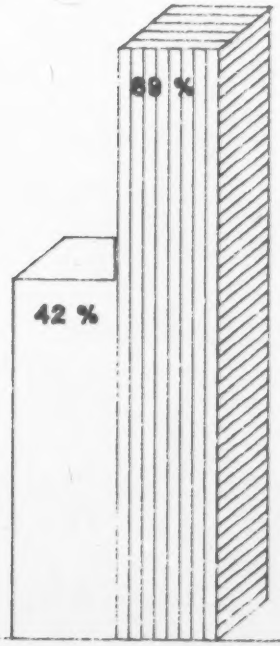


% SHARE OF POPULATION



% SHARE OF GROWTH





PREPARED BY THE JOINT ECONOMIC COMMITTEE

the postwar era prior to Reagan was 3.4 percent. The state-by-state numbers for growth in wage and proprietorship income indicate that the much slower 2.2 percent rate of growth in real GNP which has occurred during the Reagan Administration would not have seemed slower to someone living either in California or on the East Coast. In fact, the average annual growth rate in real wage and proprietorship income for the 16 states in the coastal grouping was 4 percent, or considerably above the average for the postwar period. The coastal states are, in fact, enjoying economic growth at about the level that the United States as a whole enjoyed during the 1960's.

For the remainder of the country, however, the annual growth rate was only 1.4 percent during this five-year period. During the 34 years between 1947 and 1981, the U.S. economy fell below a 1.4 percent annual real GNP growth rate only seven times. During that postwar period, however, only once, from 1954 to 1958, did national growth average 1.4 percent for a five-year period and at no time was it below that level (see Table 3).

Some of the regional disparity reflected by income figures was also reflected in employment data. Between the first quarter of 1981 and the end of 1985, slightly more than eight million new jobs were created in the United States (see Table 4). Fifty-eight percent of those jobs were added in the 16-state coastal group, which computes to about 90 percent more job growth per capita than in the remainder of the country. However, the fact that the 34 states in the non-coastal grouping got 42 percent of the new jobs but only slightly more than 30 percent of the real income growth suggests that average wages in the non-coastal

TABLE III

ANNUAL AND 5 YEAR
REAL GNP GROWTH, 1947-1981

ANNUAL RATE	
1947	2.8
1948	3.9
1949	0.0
1950	8.5
1951	10.3
1952	3.9
1953	4.0
1954	-1.3
1955	5.6
1956	2.1
1957	1.7
1958	-0.8
1959	5.8
1960	2.2
1961	2.6
1962	5.3
1963	4.1
1964	5.3
1965	5.8
1966	5.8
1967	2.9
1968	4.1
1969	2.4
1970	-0.3
1971	2.8
1972	5.0
1973	5.2
1974	-0.5
1975	-1.3
1976	4.9
1977	4.7
1978	5.3
1979	2.5
1980	-0.2
1981	1.9

5 YEAR RATE	
1947-1951	3.9
1948-1952	5.3
1949-1953	5.3
1950-1954	5.0
1951-1955	4.4
1952-1956	2.8
1953-1957	2.4
1954-1958	1.4
1955-1959	2.8
1956-1960	2.2
1957-1961	2.3
1958-1962	3.0
1959-1963	4.0
1960-1964	3.9
1961-1965	4.6
1962-1966	5.3
1963-1967	4.8
1964-1968	4.8
1965-1969	4.2
1966-1970	3.0
1967-1971	2.4
1968-1972	2.8
1969-1973	3.0
1970-1974	2.4
1971-1975	2.2
1972-1976	2.6
1973-1977	2.6
1974-1978	2.6
1975-1979	3.2
1976-1980	3.4
1977-1981	2.8

TABLE IV

EMPLOYMENT

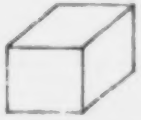
(in Thousands)

	1981:1	1986:1	New Jobs	Percent
COASTAL	40331.4	45037.9	4706.6	58%
CENTRAL	53385.2	56780.1	3394.9	42%
TOTALS	93716.6	101818.0	8101.5	100%

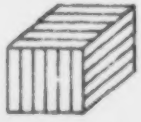
THE BI-COASTAL ECONOMY

GEOGRAPHIC CONCENTRATION OF NEW JOB GROWTH SINCE 1981

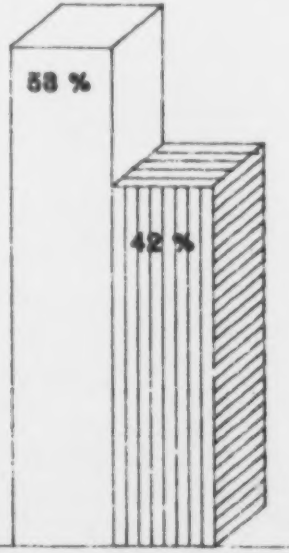
(TOTAL NEW JOBS FROM 1981:1 TO 1986:1 = 8.1 MILLION)

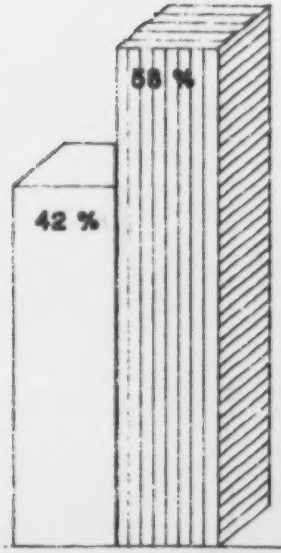


% SHARE OF POPULATION



% SHARE OF NEW JOBS





PREPARED BY THE JOINT ECONOMIC COMMITTEE

state grouping declined significantly relative to wages in the coastal state grouping. This will be examined in greater detail in a paper presently being prepared for the Joint Economic Committee.

The increased economic disparity between states in the coastal group and the remainder of the country is also reflected in family income statistics. Information generated by the Poverty Institute at the University of Wisconsin indicates that households in the 16-state coastal grouping enjoyed an average income only about 2 percent greater than households in the remaining 34 states in 1981. Median household income was actually higher in the non-coastal grouping in 1981. By 1984, the last period for which such data are available, the differential for average income had jumped to more than 10 percent. In other words, the differential increased fivefold in three years (see Table 5).

If this trend of regional disparity in family income growth were to continue, by the middle of the next decade, there would be a more than 40 percent difference between the average income of families living in the coastal group of states and families living in the rest of the country. That would roughly equal the regional disparity which existed between northern and southern states during the first half of this century.

The Joint Economic Committee is currently working on several projects that will provide a more detailed explanation of the reasons behind the regional growth differences described above. It is clear, however, from a preliminary review of the data, that a central cause is trade and the current massive imbalance in

TABLE V

INCOME OF FAMILIES AND HOUSEHOLDS IN 16 BICOASTAL STATES
AS COMPARED WITH REMAINDER OF UNITED STATES FOR YEARS 1981 AND 1984
(IN 1984 DOLLARS)

	Bicoastal 1981	Central 1981	Dollar Difference	Percent 1/ Difference	Bicoastal 1984	Central 1984	Dollar Difference	Percent 1/ Difference	Increase In Differential
				AVERAGE					
Nonfamily Households	$10,464	$ 9,699	$ 765	7.9%	$13,479	$11,537	$1,942	16.8%	$1,177
Families Without Children	23,351	22,114	1,237	5.6	30,092	26,390	3,702	14.0	2,465
Families With Children	23,811	23,321	490	2.1	29,616	27,067	2,549	9.4	2,059
All Households	19,239	18,914	325	1.7	24,269	22,024	2,245	10.2	1,920
				MEDIAN 2/					
Nonfamily Households	$ 8,735	$ 7,658	$1,077	14.1%	$ 9,765	$ 8,214	$1,551	18.9%	$ 474
Families Without Children	22,625	21,338	1,287	6.0	24,660	21,667	2,993	13.8	1,706
Families With Children	24,471	24,766	-295	-1.1	26,344	24,279	2,065	8.5	2,360
All Households	17,784	17,926	-142	-0.8	18,930	17,597	1,351	7.7	1,493

1/ As a percent of Central.
2/ Median is estimated by taking the average of families in the third quintile.

trade that exists between the United States and its trading partners. In 1980, the United States had a current account surplus of $1.8 billion with the rest of the world. By last year, however, that surplus had become a $120 billion deficit and, for 1986, the deficit is projected to be approximately $140 billion on an annual basis. One major factor in the dramatic deterioration in the U.S. trade position has been the drop in agricultural exports which dropped from a peak of $43.8 billion in 1981 to an estimated $25 billion in 1986. While California and many of the East Coast states have significant agricultural economies, by far the greatest bulk of agricultural export crops come from the heartland. The May agricultural trade data indicated that the United States had, for the first time in nearly 30 years become a net agriculture importer. The numbers indicated that U.S. corn exports for that month were more than 80 percent below 1980 and 1981 levels. Soybean exports were down by 33 percent. Wheat exports were down 58 percent. Midwestern farmers have not only been hit by the decline in export sales, but also have been plagued by declining prices due, to a significant extent, to the flooding of world agricultural markets with exports from third-world debtor nations attempting to generate sufficient foreign capital to make interest payments on their loans (see Joint Economic Committee report, "The Impact of the Latin American Debt Crisis on the U.S. Economy"). The end result has been the loss of billions of dollars to the economies of most midwestern farm states. A loss which, in most instances, has not been off-set by Federal agriculture support payments.

A similar situation has occurred with many nonagriculture commodities. Rising third-world production and weak demand has

created surpluses on world markets and driven down prices. For instance, copper has dropped from $1.01 a pound in 1980 to $0.60 now. Nonagricultural commodities are also produced largely in the heartland.

A second factor in the deteriorating trade situation has been the decline in exports of manufactured goods. Particularly large declines have taken place in the export of heavy equipment and capital goods. These goods and the steel and other materials required to make them also come from the heartland and also have been a victim, in part, of the manner in which the United States has chosen to handle the third-world debt problem.

A third factor in the reversal of the U.S. trade position has been the influx of imported manufactured goods in competition with American made products. This has been the result of imporved overseas manufacturing processes, the overvaluation of the dollar for a prolonged period, and, in at least some instances, lax U.S. trade agreements and enforcement of those agreements. The regional impacts on the United States of this influx of foreign-made products is currently being analyzed. Certainly, in some areas of manufacturing such as shoes, the impact has fallen disproportionately on the Midwest.

One of the major reasons that the United States economy has remained as strong as it has in the face of declining exports has been the willingness of Americans to borrow in order to maintain consumption levels. This has helped preserve jobs in the service industry, particularly in the importing, advertising, financing, and selling of foreign-made goods. These industries are widely dispersed but they are most heavily concentrated on the coasts

and certainly the top jobs in these industries tend to be located on the coasts. This may be at least a partial explanation of the strong growth in the coastal grouping although clearly much more research will be required before any definite conclusions can be drawn.